

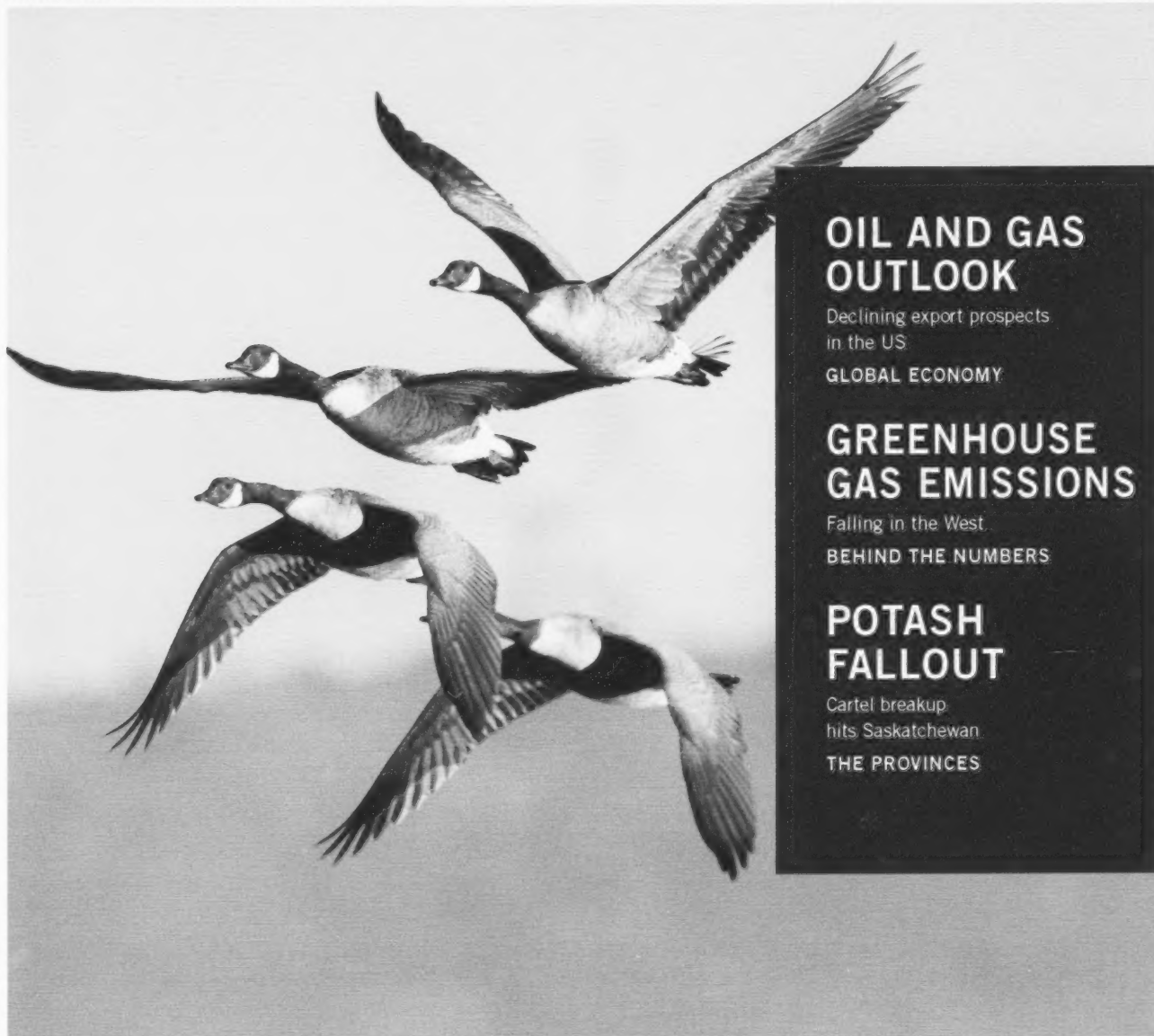
# CURRENTS

WESTERN CANADA'S  
ECONOMIC BULLETIN

## FEATURE STORY

Interprovincial  
migration surges  
as EI reforms  
kick in

CANADA WEST FOUNDATION NOVEMBER 2013



## OIL AND GAS OUTLOOK

Declining export prospects  
in the US

GLOBAL ECONOMY

## GREENHOUSE GAS EMISSIONS

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Cartel breakup  
hits Saskatchewan

THE PROVINCES

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## GLOBAL ECONOMY

# Long-term projections point to declining prospects for oil and gas exports to the US

MICHAEL HOLDEN, SENIOR ECONOMIST

The latest long-term projections from the US Energy Information Administration (EIA) underscore the need for western Canada's oil and gas producers to seek markets outside the United States.

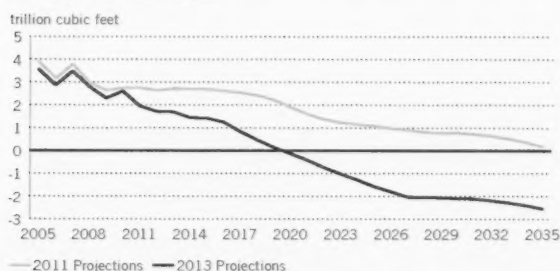
The 2013 International Energy Outlook, released this summer, is the EIA's first look at long-term energy supply and demand expectations in two years. For oil and gas markets, there is not much difference at the summary level between the 2011 and the 2013 projections. Global production and consumption levels are about the same, and in both editions, developing markets are expected to drive global energy demand growth.

However, there are important differences in some of the underlying numbers, particularly in the US. Trends in the 2011 outlook suggested that western Canada's prospects for exporting oil and gas to the US would decline in the long term. The revised 2013 outlook indicates that that decline could be even faster and more pronounced than previously believed.

The changes across the two outlooks are especially noticeable for natural gas. The boom in unconventional gas production in the US is now expected to be even greater than anticipated two years ago. In the baseline scenario of its 2011 outlook, the EIA projected unconventional gas output in the US to reach 19.8 trillion cubic feet (tcf) by 2035. It now expects that production level to be reached thirteen years earlier.

Anticipated demand for natural gas in the US is also higher in the 2013 outlook, but not enough to absorb the additional supply now expected to come on line. As a result, the US is projected to become a net exporter of natural gas far sooner than was thought just two years ago. In 2011, the EIA projected that the US would be a net exporter of gas sometime after 2035. Now, the US is expected to reach that point in just seven years.

**US TO BECOME A NET EXPORTER OF NATURAL GAS BY 2021**  
(Net imports of natural gas)



Source: US Energy Information Administration, Canada West Foundation

The EIA's outlook for crude oil and related liquids also points to lower demand for western Canadian product in the United States. The 2013 outlook includes a substantial downward revision to oil consumption expectations in the US. In the 2011 outlook, US oil demand was expected to rise modestly through the forecast period. Now, the expectation is that consumption will be flat or decline slightly.

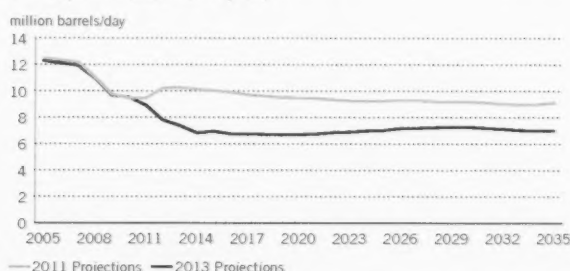
Meanwhile, the shale oil boom is expected to drive US production levels higher, especially over the next 10 years. The result is that long-term net import requirements in the US are now much lower than anticipated in 2011. In 2011, the EIA projected that net import requirements would decline modestly from about 10 million barrels per day (mb/d) to about 9 mb/d by 2035. Now, the expectation is that import requirements will drop to just under 7mb/d by next year and remain essentially flat throughout the forecast period.

Meanwhile, EIA projections for oil and gas consumption in Asia are essentially unchanged from 2011. Import requirements for petroleum liquids are expected to increase by 93% from 2010 to 2035. For natural gas, they are projected to more than triple. As in the 2011 outlook, China is expected to drive most of that growth.

In a sense, this updated outlook does not change the prevailing narrative for western Canada. The West's oil and gas producers continue to need improved access to overseas markets to increase, or even just to maintain, their current export volumes. This has been known for years.

The difference is that results from the EIA's 2013 outlook suggest that western Canada needs to increase the degree of urgency with which it approaches this challenge. Ambitious proposals to build natural gas liquefaction plants in BC or oil pipelines to eastern Canada are important, but are only part of the solution.

**US DEMAND FOR FOREIGN PETROLEUM LOWER THAN EXPECTED IN 2011**  
(Net imports of petroleum liquids)



Source: US Energy Information Administration, Canada West Foundation

## WESTERN COMMENTARY

# El reforms trigger massive spike in interprovincial migration

If the federal government's recent Employment Insurance (EI) reforms were aimed at encouraging Canadians to seek job opportunities in new provinces, they seem to be working.

The new EI rules came into effect in January. They added tighter definitions for what kind of work claimants were obliged to accept and what constitutes a "reasonable job search." Among the changes, if frequent claimants are unable to find work in similar occupations after six weeks of searching, they are required to accept any job that pays at least 70% of their previous income (but not below minimum wage). Allowances are made for specific circumstances such as single parents doing shift work or if transportation costs are too onerous.

The impact of the EI changes on migration flows was immediate but not obvious. Interprovincial migration is very seasonal and relatively few people move between January and March. Migration numbers tend to rise in the spring, peak in the summer and fall back again in the autumn.

In the first quarter of 2013, the number of migrants across Canada rose by 16% compared to the same period in 2012. At 74,000 people, it was the largest winter interprovincial migration since 1976. This past spring, however, saw more than 108,000 Canadians move to a new province. This was not only the highest quarterly total in over 20 years, it was also the largest second-quarter migration on record (dating back to 1962). Summer population flows are almost certain to be higher still.

On a net basis, these flows magnify recent trends that see movement into Alberta and, to a lesser extent, Saskatchewan from every other province. Alberta gained net 27,200 new residents in the first half of 2013, while Saskatchewan gained 868. In the case of Saskatchewan, this increase is in line with migration trends in recent years. In Alberta, however, that total may represent the largest January-June net in-migration in the province's history.

Every other province lost residents in the first half of 2013. The largest net decrease in terms of raw numbers was in Ontario, where 11,700 people left the province. Expressed as a share of the remaining population, however, the largest exodus was from Nova Scotia, followed by Newfoundland and Labrador.

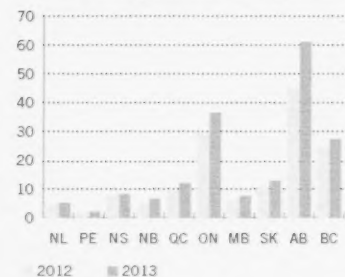
More interesting than the net flows, however, is the fact that since the EI reforms came into effect, there has been an increase in movement to and from every province. For the first half of 2013, all ten provinces saw a spike in the number of new residents. While most provinces lost more people than they gained, the increase in two-way flows is an encouraging sign that Canadians are moving in response to job opportunities, wherever they may be found.

It is still far too early to determine what the overall effect of the EI reforms will be. However, the new rules may have altered the basic choice set facing program claimants. If they are required to accept up to 30% less money or risk losing their EI benefits, frequent claimants could find that higher-paying jobs in other provinces look much more attractive by comparison. This may create demographic challenges in some parts of the country, but improved labour mobility is good news for the Canadian economy.

## MIGRATION TRENDS IN CANADA

### POPULATION MOVEMENTS ARE UP ACROSS CANADA

Number of in-migrants from January to June



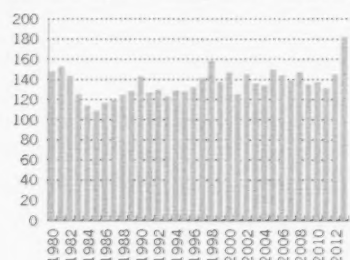
Source: Statistics Canada, Canada West Foundation

**26%**  
increase in  
interprovincial  
migration since  
EI reforms came  
into effect.

Statistics Canada, Canada West Foundation

### INTERPROVINCIAL MIGRATION SURGES AFTER EI REFORMS

000s of interprovincial migrants - January to June



Source: Statistics Canada, Canada West Foundation

## BRITISH COLUMBIA

## Resource strength, but weak domestic market

Demand-side weakness continues to plague the BC economy. However, a few pockets of strength in resource production and exports are helping to keep the BC economy afloat and point to the possibility of better times ahead.

Exports have been one of the few bright lights in the BC economy this year. Through August, provincial exports are up 6.5% compared to the same period last year. Only Nova Scotia and Manitoba have seen faster export growth in 2013.

The increase in exports has been bolstered by higher resources production. Most notably, the province is enjoying a welcome and long-awaited turnaround in lumber markets. A recovering US housing market has driven up lumber prices and, as a result, exports of wood and wood products from BC are up 28% through the first eight months of 2013. The province has seen higher lumber sales not just to the US, but across Asia and in the United Kingdom as well.

BC is also enjoying a relatively strong year in mineral output. Notably, production of copper and precious metals are up sharply in 2013. Although falling prices are a medium-term worry for the industry, production of those metals are poised to rise even further as the year winds to a close. The Mount Milligan mine – BC's first greenfield mine in 15 years – began producing copper and gold concentrates in September.

In spite of the goods news on the resources front, BC's domestic economy is struggling. There were 15,600 fewer British Columbians employed in September 2013 compared to a year earlier. Beginning in October, BC will have to add 5000 new jobs per month through to the end of the year just to reach 0% employment growth for 2013.

Poor job prospects are having a ripple effect through the BC economy. Wage growth has been slowing since last summer and, in August, dipped into negative territory for the first time in almost four years. Consumer markets have also been weak through much of the year.

Further complicating matters, a sluggish economy has taken some of the shine off BC's attractiveness as a place to live. Not only does the province continue to be a net exporter of residents to other provinces, but BC's share of immigrants is declining as well. In the second quarter of 2013, 13.4% of Canadian immigrants settled in BC, down from 19.1% in early 2008. For the first time since the mid-1950s, there are now more immigrants moving to Alberta than to BC. As a result, population growth in BC is now below the national average and will dampen future construction activity in the province.

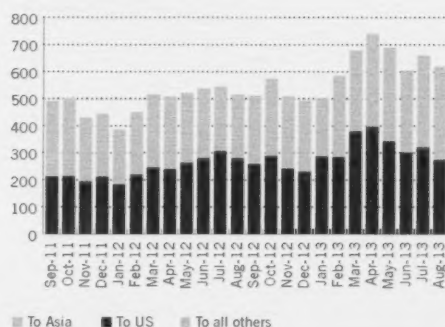


# 13.4%

of new immigrants settle in BC.  
Five years ago, it was 19.1%.

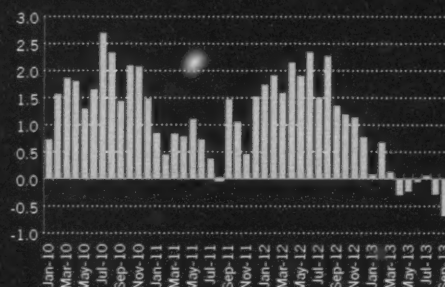
Source: Statistics Canada

### EXPORTS OF WOOD PRODUCTS RECOVERING (Monthly exports, in \$millions)



Source: Industry Canada

### POOR JOB PROSPECTS IN BC (year-over-year growth in employment)



Source: Statistics Canada, Canada West Foundation



## ALBERTA

## Population boom

While waiting for the bills for flood reconstruction and compensation to come in, the Alberta government has been struggling with another emerging issue – the challenges of coping with a population boom.

Thanks to surging immigration and interprovincial migration, Alberta's population is exploding. Through September, the population is expanding at an annualized rate of 3.3% – triple the national average – and growth is accelerating. There are now more than 4 million Albertans. By the end of 2013, the province will have added, in a single year, a city almost the size of Lethbridge and Grande Prairie combined.

Population growth – and migration in particular – is both a response to and a predictor of a healthy economy. High wages and strong labour demand have contributed to the influx of people into Alberta. As the population grows, it will fuel additional gains, especially in retail trade, residential construction and infrastructure investment. Alberta is expected to once again lead all provinces in economic growth in 2014.

So far, labour markets have been able to accommodate all Alberta's new residents. The province added more than 80,000 jobs since last September and is creating jobs at a faster rate than any other. However, these new jobs were only just enough to keep Alberta's unemployment rate steady, at 4.3%.

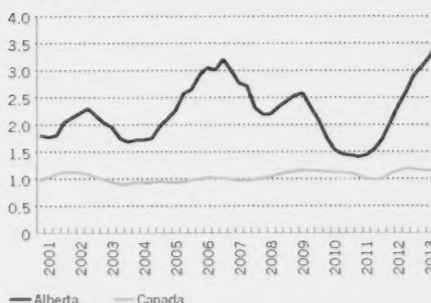
Wage growth in the province is slowing, but this is not likely to take the wind out of the sails of consumer markets in Alberta. Despite a small dip in June and July, retail sales through the first seven months of 2013 are up 6.6% compared to the same period last year. Leading the way are new motor vehicle sales which, through August, are 10.5% higher than in 2012.

Although both housing starts and building permits have dipped in recent months, real estate markets and residential construction in Alberta will also be strong in the coming year. The combination of higher monthly home sales and flat new listings will put more upward pressure on resale prices which, in September, were already 7.8% higher than a year earlier. On top of that, the inventory of unsold homes is falling in most urban areas, which will likely accelerate new home construction.

The one downside to this population boom is that it is creating additional headaches for the provincial government. Already faced with a large deficit and looming flood-related expenses, a surging population brings with it additional demands for public infrastructure to accommodate that growth. For this reason, the province is examining alternative means to finance capital spending, including adding new debt, using resource revenues to finance major projects or more public-private partnerships.



**POPULATION BOOM IN ALBERTA**  
(% growth, year-over-year)

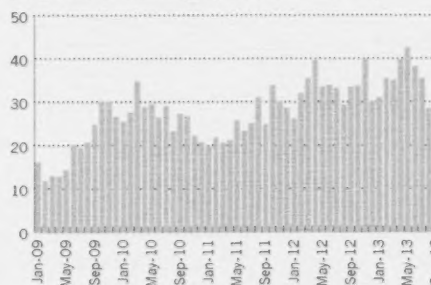


Source: Statistics Canada, Canada West Foundation

**4.0 million**  
people now live in Alberta.

Source: Statistics Canada

**TEMPORARY DIP IN HOUSING STARTS**  
(x1000 units, seasonally adjusted at annual rates)



Source: Statistics Canada

## SASKATCHEWAN

## Uncertain outlook for potash

The big news affecting Saskatchewan over the summer was the breakup of a Russian potash cartel which, together with Canpotex, controlled 70% of the global potash market. The impact on potash producers' share prices was immediate, but the repercussions on the industry, and the Saskatchewan economy, are still playing out.

Prior to the dissolution of the cartel, the potash industry in Saskatchewan had been enjoying a solid, if unspectacular year. While prices were below 2012 levels, dampening the value of fertilizer exports, production was up 13.6% through July. It is likely that production levels will fall through the remainder of the year. Most global potash sales are made through bulk purchase agreements or long-term supply contracts. Since July, there has been little purchase activity as potential buyers wait the market out to see how far prices fall.

The Saskatchewan government has already adjusted to account for the expected drop in potash prices. In the last budget, the provincial government estimated potash revenues for 2013-2014 to be \$520 million, based on an assumed average price of \$395 per tonne. It has since cut price expectations by 25%.

The good news for Saskatchewan is that the cartel breakup was not enough to deter BHP Billiton from committing an additional \$2.6 billion over the next three years to the development of its Jansen potash mine. The mine is expected to become operational sometime around 2020.

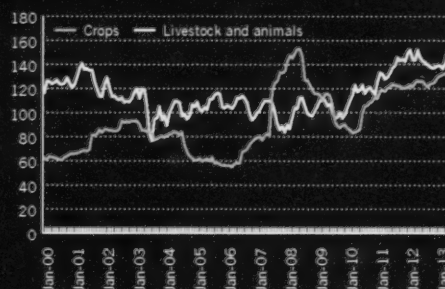
Aside from the uncertainty surrounding potash, Saskatchewan's economy remains generally strong. Led by food and chemical production, manufacturing shipments are up 5% through August, one of the strongest performances in Canada so far this year. However, growth may decelerate as the year winds down; chemical production includes potash-based fertilizers, production of which fell sharply in August.

The agriculture sector is enjoying good conditions through 2013. Prices for both crops and livestock were strong in the first half of the year relative to historic levels and grain and oilseed producers are bringing in near-record crops this fall. Unfortunately, as these bumper crops come in, they are increasing available supply over expectations, causing some weakening in prices over the past month.

Labour and consumer markets are also performing well. Notwithstanding a dip in September, employment levels are up 3.6% through the first three quarters of the year on the strength of job gains in agriculture, construction and health care. For their part, retail sales are also beginning to recover after stagnating through the first few months of the year.

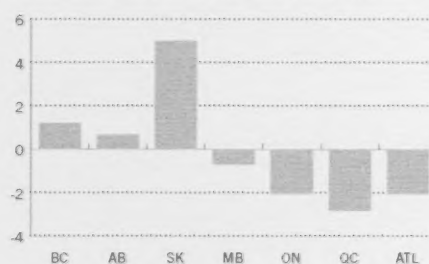


**AGRICULTURE PRICES SOLID**  
(Farm product price index, 2007=100)



Source: Statistics Canada

**STRONG GAINS IN MANUFACTURING**  
(% change: Jan-Aug 2013 over same period in 2012)



Source: Statistics Canada, Canada West Foundation

**8.2%**  
increase in food products  
manufacturing through  
July 2013.

Source: Statistics Canada

## MANITOBA

### Exports Surge

After starting the year off slowly, exports have become the brightest light in the Manitoba economy so far in 2013. From January through August, exports are up 7.4% compared to the same period last year. Only Nova Scotia has posted a larger increase.

Leading the way for Manitoba has been shipments of crude oil, which have more than doubled over last year's levels. Crude oil is now the province's single most important export product, ahead of major established goods like nickel, pork and wheat.

Construction continues to be a major growth driver in Manitoba. Non-residential building permits were down considerably early in the year, suggesting a hangover effect from the construction boom in 2012. That proved wrong, however, as construction intentions took off in the summer. Through August, the value of non-residential construction permits was 17.8% higher than last year. The increase in residential permits was more modest, but still solid, at 9%.

Offsetting this strength has been a disappointing year so far in manufacturing. Through August, manufacturing shipments are down 0.7% compared to last year. Most of this weakness is in durable goods production. In particular, the manufacture of fabricated metals and electrical equipment are both down sharply. The one exception on the durable goods side is wood products manufacturing, which is up 25%.

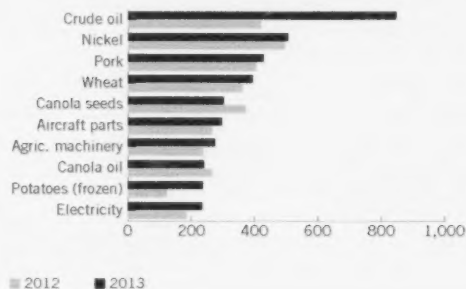
Manitoba consumers went on a buying spree in advance of the provincial sales tax increase that came into effect on July 1<sup>st</sup>. Retail sales soared in May and June, but came crashing back down in July once the tax rose from 7% to 8%. The drop in retail sales activity from June to July was the largest decrease in more than 20 years.

The good news for the provincial government was that the run-up in consumer spending before July padded its revenues for the first quarter of the fiscal year. Retail sales tax income was \$29 million higher than expected from April to June. That extra revenue, combined with a delay in some spending initiatives, helped cut the province's projected deficit in half for the first quarter. The bad news is that, to the extent that Manitobans accelerated their buying plans to avoid the tax increase, the opposite is likely to happen in the second quarter.

Employment levels in Manitoba have been volatile through much of 2013. However, the swings (of up to 11,000 jobs a month) are so large that survey data anomalies seem a more reasonable explanation than actual economic events. Looking past these swings, job creation has been modest so far this year, but is keeping pace with growth in the province's labour force.



**CRUDE OIL DRIVES EXPORT GROWTH**  
(Merchandise exports, Jan-Aug - in \$millions)



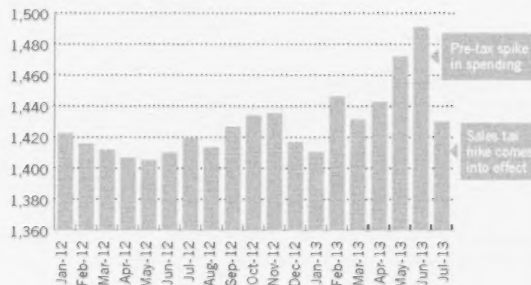
Source: Statistics Canada

# 102%

increase in crude oil exports  
through August.

Source: Statistics Canada

**TAX AVOIDANCE IN MANITOBA**  
(Monthly retail sales - in \$000s)



Source: Industry Canada

## BEHIND THE NUMBERS

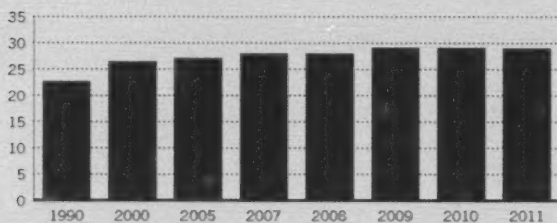
### Thanks to lower emissions in the energy sector, greenhouse gas output in western Canada has fallen by 1.5% since 2007.

Western Canada's energy sector has long been a driver of national growth in GHG emissions. From 1990 to 2007, Canada's total GHG output grew by 27%. Nearly half of that growth was directly attributable to rising energy production in the West.

Since 2007, however, there has been a remarkable shift. In spite of rising oil and electricity production in most provinces, total energy-sector emissions in the West fell by 3.2% from 2007 to 2011. By far the largest percentage decline was in Manitoba, at 35%, while the largest decrease by volume was in Alberta. On a per capita basis, the drop in emissions is even more pronounced, averaging 9.1% across the West over that period.

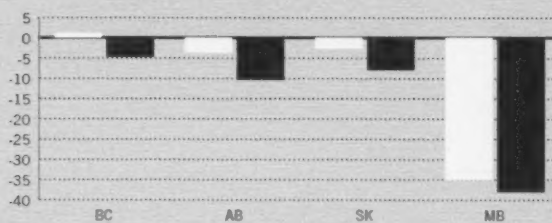
Nevertheless, overall GHG emissions levels vary considerably across western Canada. Alberta and Saskatchewan are two of the largest GHG emitters in the country, largely because of fossil fuel production and the prevalence of coal- and gas-fired power plants. By contrast, emissions from Manitoba and BC are much smaller because of the abundance of hydro power and relatively modest oil and gas production and refining.

**GHG EMISSIONS FROM ENERGY PRODUCTION IN THE WEST**  
(as a % of total Canadian emissions)



Source: Environment Canada, Canada West Foundation

**FALLING GHG EMISSIONS FROM ENERGY PRODUCTION**  
(% growth, 2007-2011)



Source: Environment Canada, Canada West Foundation

### GHG EMISSIONS ACROSS CANADA → 2011

Tons of CO<sub>2</sub> equivalent per person



From energy production and related activities

From other sources

Source: Environment Canada, Canada West Foundation

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